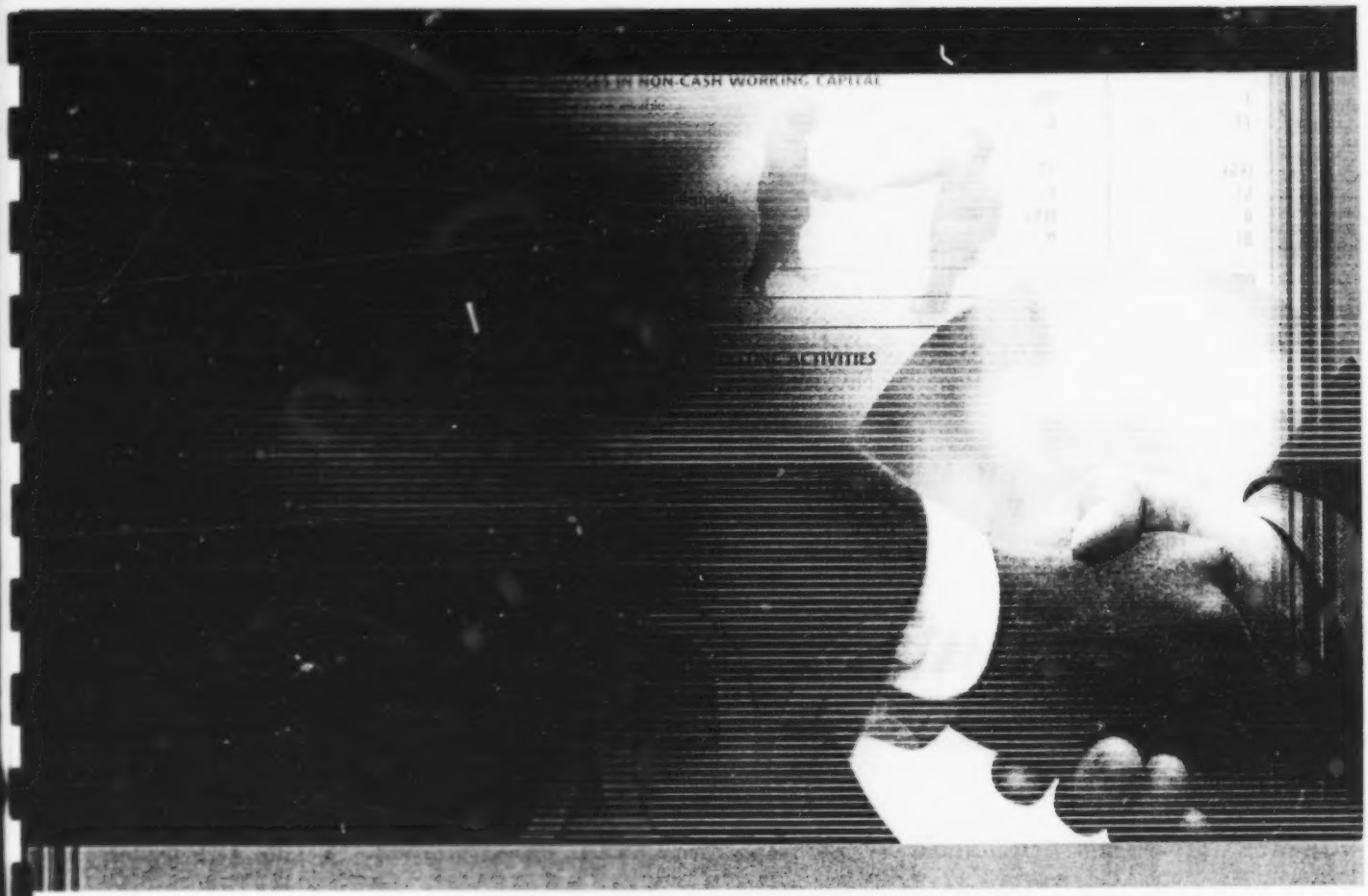


2006 Annual Report

THE MANITOBA SECURITIES COMMISSION

THE MANITOBA
SECURITIES
COMMISSION

2007-01559/

TABLE OF CONTENTS

Mission and Mandate 1

Letters of Transmittal 2

Report from the Chair 4

Part I – Commission Overview 7

Part II – Securities 12

Part III – Real Estate 22

Part IV – Performance Measurement 25

Part V – Information Technology 27

Part VI – Financial Discussion 28

Responsibility for Financial Reporting 31

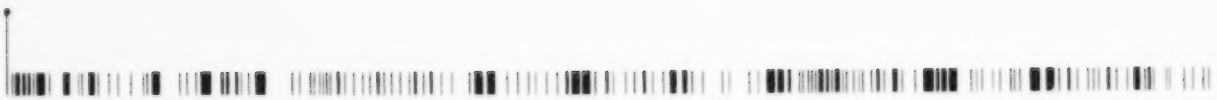
Audited Financial Statements 32

MISSION

The mission of The Manitoba Securities Commission is to protect and promote the public interest by facilitating dynamic and competitive capital and real estate markets that contribute to the economic development of Manitoba while fostering public confidence in those markets.

MANDATE

The mandate of the Commission is to act in the public interest to protect Manitoba investors and to facilitate the raising of capital while maintaining fairness and integrity in the securities marketplace. Similarly, its real estate industry mandate is to regulate brokers, salespeople and mortgage dealers to ensure adequate standards are maintained for the protection of the public.



His Honour the Honourable John Harvard, P.C., O.M.
Lieutenant Governor of Manitoba
Room 235, Legislative Building
Winnipeg, Manitoba
R3C 0V8

May it Please Your Honour:

I have the privilege of presenting for the information of Your Honour the Seventh Annual Report of The Manitoba Securities Commission for the fiscal year ended March 31, 2006.

Respectfully submitted,

Honourable Gregory Selinger
Minister

Honourable Gregory Selinger
Minister of Finance
Room 103 Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Mr. Minister:

I have the honour to submit for your consideration the Seventh Annual Report of The Manitoba Securities Commission for the fiscal year ended March 31, 2006.

Respectfully submitted,

Donald G. Murray
Chair
The Manitoba Securities Commission

National Initiatives

The year ending March 31, 2006 saw the MSC continue, along with other provincial/territorial Securities Commissions and government department representatives from all Canadian jurisdictions, the work to streamline and harmonize securities legislation. Each jurisdiction has undertaken to modernize their Securities Act and enact targeted amendments that will, when complete, result in legislative uniformity across the country to a degree not previously seen. The goal is to reform the regulatory regime so that issuers and registrants can fulfill their filing requirements and be compliant nationally by dealing only with their principal regulator and providing all market participants with the certainty that rules in their home jurisdiction are harmonized to those of the balance of the provinces and territories. It is anticipated that the first major segment of legislative amendments will be passed in all jurisdictions during 2006/07.

In Manitoba the first set of amendments were introduced in the fall of 2005 for passage in the spring 2006 legislative session. Additional harmonizing amendments have been identified and will be recommended for consideration. In addition, staff is working with staff in the other provinces and territories toward recommendations for legislation to modernize securities transfer laws.

The "passport system" has been implemented in 12 of the 13 Canadian jurisdictions and it is hoped that Ontario will join in the near future. Participation by all Canadian jurisdictions will allow this initiative to provide the securities markets in Canada with the full range of benefits for which it was designed. At the MSC we believe that a fully operative passport, including legislative tools developed for its operation and streamlined and harmonized legislation will allow for securities regulation on a national basis while respecting provincial jurisdiction in the area.

While this work proceeds at the provincial/territorial level, efforts continue in other areas to develop a plan for a single or "common" securities regulator for Canada. The Crawford Panel, contracted by the Ontario government, released in December 2005 a discussion paper containing the elements of a blueprint for a securities regulatory regime with a common regulator operated by the provinces in co-operation with the federal government. As at March 31, 2006 the Panel's final report had not been released.

Local Initiatives

While much of the Commission's activity in the year was dedicated to furthering national initiatives there are also numerous initiatives of a local nature undertaken. These include:

- Completion of the re-writing of the Commission's web site for rolling out in 2006;
- Ongoing use and development of the financial compensation regime;
- Completion of drafting of proposed amendments to The Real Estate Brokers Act;

- Successful launch in January 2006 of the Commission's interactive website "Grow me the Money" which will operate through most of the calendar year 2006; and
- The planning and completion of a premises relocation for the Commission which occurred in September 2005.

These and numerous other local initiatives and achievements are set out in more detail in the body of this report.

The Commission, as at March 31, 2006, completed the third cycle of operation of its performance measurement system (Balanced Scorecard) and was successful in meeting the majority of its stated goals. A further report is set out in Part IV. Also, during 2005/06 amendments to the planning and measurement document were undertaken through consultation with staff and these will be implemented during 2006/07.

Real Estate

The real estate division performs a similar role to the securities division in the regulation of the real estate industry, performing the functions of registration, compliance review, investigation and enforcement and policy development. The Registrar and his staff also continue to partner with the industry in the development of industry association rules, policies, educational courses and new initiatives.

Real estate division staff continue to cooperate in the development and presentation of the Mandatory Continuing Education program for industry practitioners. The program has been a major success in that it not only assists industry practitioners in maintaining and improving their skills and knowledge but serves to enhance the public's view of the professionalism of the industry.

It is expected that the real estate division electronic registration system will be implemented and in full operation during 2006. In addition the amendments to The Real Estate Brokers Act have been drafted and will be proposed for legislative introduction in the spring session of 2007.

Sustainable Development

The Sustainable Development Act was enacted for the purpose of promoting and implementing sustainable development in the provincial public sector, private industry and society in general. Principles and guidelines have been developed to assist departments and agencies in instituting objectives, integrating them into operations and reporting on their development. The Commission remains committed to sustainable development.

Operating in an office environment, the Commission procures a variety of recycled items including paper products and various other office materials. The Commission will set goals and objectives towards sustainable development procurement and financial management. Through training and education, the Commission intends to continue to develop a sustainable development process that is continuous and balanced.

Acknowledgements

As in past years the Commission would like to express its appreciation of the work of its three advisory groups being the Securities Advisory Committee, the Real Estate Advisory Council and Real Estate Advisory Committee. The members of these committees volunteer their time to both divisions of the operation and their work provides a benefit to the Commission staff as well as to the industry and public served by the Commission.

Recognition is also due to the part time members of the Manitoba Securities Commission. As a group they lend a wealth of insight and practical knowledge to the deliberations of the Commission. Their work, as always, is appreciated. During 2005/06 there were two retirements from the Commission, as set out on pages 9 and 10. These retirements left the Commission one Commissioner short of a full compliment as at March 31, 2006. It is anticipated that the Commission will be brought back to full membership during the calendar year 2006.

Finally, it is especially important at this time to recognize the staff of the Commission. During 2005/06 not only did they respond to ever increasing levels of market activity while allowing, through their efforts, the Commission to contribute its part in the several national initiatives but they did so while each taking his or her part in the preparation for and completion of the move from our former premises to our new location act 500-400 St. Mary Avenue. The efforts and co-operation of each staff member allowed this move to take place with the least possible amount of disruption to Commission activities. The Commission expresses its sincere appreciation.

Donald G. Murray
Chair
The Manitoba Securities Commission

PART I - COMMISSION OVERVIEW

The Manitoba Securities Commission ("the Commission") is responsible for administering and enforcing *The Securities Act, The Commodity Futures Act, The Real Estate Brokers Act and The Mortgage Dealers Act*. The Commission was structured in its present form in 1968. The Commission became a Special Operating Agency on April 1, 1999.

A reference to "the Commission" can mean either of two distinct yet connected bodies. These are:

1. The administrative or functional arm which is made up of full-time employees who conduct the day-to-day operations; and
2. The policy making group made up of a maximum of seven order-in-council appointees who meet regularly (the "Commission members").

Administrative Arm

The administrative arm of the Commission is comprised of two operating divisions, the securities division and the real estate division consisting of 33 full-time staff.

Securities Division

The securities division is organized into the following seven operational sections:

Investigations

There are four staff in this section being the Manager of Investigation, two investigators and one administrative support staff. The investigation section receives inquiries and complaints, conducts investigations and assists legal staff in the preparation of matters for hearings. The members of the investigation section report to the Director of Legal, Enforcement and Registrations.

Legal

The legal section is comprised of the Deputy Director -Legal, three legal counsel and one administrative support staff. The legal section provides legal advice to the Commission members and all other functional sections of the Commission, takes part in policy development and the creation of educational materials, presents applications to Commission meetings and prepares and argues enforcement cases at Commission hearings and in court. The members of the legal section report to the Director of Legal, Enforcement and Registrations.

Registration

The registration section is made up of the Deputy Director - Registrations and five full-time registration clerks. This section is responsible for the registration of firms and individuals operating in the investment markets in Manitoba. The members of the registration section report to the Director of Legal, Enforcement and Registrations.

Compliance

The Compliance Officer is an auditor who supports the registration function by conducting compliance audits of the industry. This position also assists in the investigation and legal functions of the Commission by analyzing financial and trading information arising from investigations or from claims made by investors for compensation for financial loss. This staff member reports to the Director of Legal and Enforcement and Registrations.

Corporate Finance and Continuous Disclosure

There are five staff members in this section being senior analyst, analyst, administrative assistant, corporate finance clerk and continuous disclosure clerk. The analysts are professional Accountants. This section reviews offering documents and applications, as well as continuous disclosure filings of reporting issuers. It also takes part in policy development and makes presentations at Commission meetings. Staff in this section report to the Director of Corporate Finance and Chief Administrative Officer, who is also a professional Accountant.

Finance and Administration

There are five staff members assigned to this section including the controller (a professional Accountant), an accounting clerk, a web developer/analyst, a receptionist and an administrative clerk. This section, in consultation with management, prepares the Commission's budgets and financial reports and develops and implements office and personnel policies for both the securities and real estate divisions. Staff in this section report to the Director of Corporate Finance and Chief Administrative Officer.

Education/Information

The Education/Information Officer is the sole staff member assigned to this section. This individual, who has a degree in education, is responsible for the development and implementation of educational programs for the general public and industry. The Education/Information Officer reports to the Chair.

Additional Staff

There is an additional full time staff position, being an Administrative Assistant reporting directly to the Chair.

Real Estate Division

The real estate division is made up of the Registrar, Deputy Registrar, Auditor/Investigator and two administrative support positions. The real estate division is responsible for the administration of *The Real Estate Brokers Act* and *The Mortgage Dealers Act* and, in general, the regulation of the real estate industry in the Province of Manitoba. Employees in this section report to the Registrar.

Management

Both Directors of the securities division and the Registrar of real estate report directly to the Chair, who is the Chief Executive Officer of the Commission. This group comprises the senior management team. In addition there is an extended management committee which has membership from all operational areas.

Commission Members

In addition to the Chair there are a maximum of six part-time Commission members. The Commission meets regularly (usually weekly) to deal with policy and regulatory formulation, applications seeking exemptions from the requirements of regulation, and to consider whether it is in the public interest to grant various types of orders authorized by legislation. Commission members also perform a quasi-judicial function by sitting as adjudicators in Commission hearings. The Chair presides at meetings of the Commission.

The Chair of the Commission reports to the legislature through the office of the Minister of Finance.

During 2005/06 the Commission Members were as follows:

Donald G. Murray (Chair) - Appointed to the Commission in 1993, Mr. Murray spent 20 years in the private practice of law. In 1994, he was appointed Vice Chairman and became Chairman in 1997. As Chair and CEO, Mr. Murray represents the Commission as the Manitoba representative at the meetings of the Canadian Securities Administrators (CSA) and North American Securities Administrators Association (NASAA). He is the Vice-Chair of the CSA and is a member of Board of Directors of NASAA.

W. John A. Bulman C.M. - Appointed to the Commission in 1994, Mr. Bulman spent most of his business career in the printing industry. He is an active community leader especially with health and education groups. He has been Chancellor Emeritus of the University of Winnipeg and a council member of the Royal College of Physicians and Surgeons. Mr. Bulman was appointed to the Order of Canada in 1999. Mr. Bulman left the Commission in September 2005. During his 11 years of service the Commission was the grateful beneficiary of Mr. Bulman's experience, insight and wisdom. His contribution was substantial.

Lynne M. McCarthy - Appointed to the Commission in 1994, Ms. McCarthy has a Master of Business Administration degree from the University of Western Ontario and the Chartered Financial Analyst designation. Ms. McCarthy has over 20 years of experience in institutional investing.

Robert G. McEwen - Appointed to the Commission in 1992, Mr. McEwen is a retired chartered accountant and was a Deputy Director of the Commission.

Rocky L. Pollack, Q.C.
Rocky Pollack is a partner in the Winnipeg law firm of *Myers Weinberg LLP* whose practice includes litigation and appeals in criminal, civil and administrative law. A

frequent lecturer at Robson Hall and in the Bar Admission Course, he often speaks to groups of educators and other professionals including the annual *Mel Myers Labour Conference* and *Crown Defence Conference*. Rocky Pollack is a past president of the *Manitoba Bar Association, a Law Society of Manitoba* life bencher and a Fellow of the *International Society of Barristers*. He has chaired the *Canadian Bar Association's* national Criminal Justice Section as well as its first Criminal Code Task Force. Recently he served as president of *Congregation Shaarey Zedek* and as a board member of *The Jewish Foundation of Manitoba*.

Kathleen E. Hughes
Kathleen Hughes worked for the Department of Justice, Court Services for 20 years. She was formerly the Legal Information Services Coordinator for Manitoba Law Libraries Inc. Ms. Hughes was previously a member of The Manitoba Securities Commission 1975-81. She has been involved in various volunteer boards and committees.

Donald H. Smith
Appointed to the Commission in 2003, Mr. Smith is a Chartered Accountant with over 20 years experience in entrepreneurial and financial advisory services. Previously a chief executive officer of corporations providing a variety of financial services, he is currently president of a vehicle leasing company.

W.Terry Wright, Q.C.
Mr. Wright was formerly Senior Vice President, General Counsel and Corporate Secretary of IGM Financial Inc., Chair of the Board of The Mutual Fund Dealers Association of Canada and the Investment Funds Institute of Canada and is Counsel to Pitblado LLP. Mr. Wright left the Commission in January 2006. We wish him all the best in his ongoing endeavors.

Advisory Groups

Securities Advisory Committee

The Committee was established by the Chair of the Commission to meet when required to provide advice on regulatory matters. The Committee has provided advice on new policy initiatives developed by the Commission. The Committee has also been called upon to advise on changes within the industry and how the Commission can best deal with those changes.

- Dave Cheop, Investors Group Inc.
- Ken Cooper, formerly Winnipeg Stock Exchange
- Linda Vincent, Winnipeg Commodity Exchange
- Alan Dunnett, RBC Investments/ Investment Dealers Association
- Mike Guttormson, James Richardson & Sons, Limited
- Bruce Jack, Deloitte & Touche
- Tom Kormylo, Pitblado

- Tony Catanese, PricewaterhouseCoopers
- Colin Ryan, BMO Nesbitt Burns/ Investment Dealers Association
- Ron Coke, Taylor McCaffrey
- Patrick Cooney, Jory Capital Inc.
- Bruce Thompson, Thompson Dorfman Sweatman (Alternate)

Real Estate Advisory Council

The Real Estate Advisory Council is a non-statutory advisory body established by the Commission and The Manitoba Real Estate Association. The Mandate of the Council is to advise and make recommendations to the Commission and MREA on real estate issues; to review mutually beneficial ideas, policies or legislative reform; and give early warning or advance notice to the Commission of trends or developments arising in the real estate industry.

- Brad Walker, Chairman, Broker, Gill & Schmall Agencies, Neepawa
- Claude Davis, Broker, Royal LePage Dynamic Real Estate
- Cliff King, Broker, Century 21 Bachman & Associates
- Deborah Goodfellow, Broker, Goodfellow & Goodfellow Real Estate Ltd.
- Reg Black, Broker, Century 21 Sun Country Realty
- Robert Giesbrecht, President, Canadian Condominium Institute (Manitoba Chapter)
- Robert F. Shaer, Broker, Professional Property Managers' Association
- Robert L. Tyler, Solicitor, The Manitoba Bar Association
- Brian Collie, Executive Director, Manitoba Real Estate Association
- Bill Baluk, Registrar, The Real Estate Brokers Act

Real Estate Advisory Committee

The Real Estate Advisory Committee was established by the Real Estate Advisory Committee Regulation (Manitoba Regulation 593/88) under *The Real Estate Brokers Act*.

The Committee reviews and recommends projects to the Commission for funding from the interest which the Commission receives from real estate brokers' trust accounts.

- John Froese, Chairperson, Royal LePage Prime Real Estate
- Ernie Friesen, broker, Re/Max Real Estate Inc.
- Ray Brownlee, Century 21 West-Man Realty Ltd., Brandon
- Ute Vann, salesperson, Royal LePage Dynamic Real Estate
- Robert Giesbrecht, solicitor, Pitblado, member of the public

PART II - SECURITIES

OVERVIEW

The operational sections of the Commission work in seven functional areas. They are:

1. Registration;
2. Corporate Finance and Continuous Disclosure;
3. Private Placement and Exempt Offerings;
4. Exemption Orders;
5. Legislation and Policy Development;
6. Investigation and Enforcement;
7. Education and Information.

Each functional area carries unique duties and responsibilities the performance of which requires a high degree of co-operation and co-ordination among the operational sections.

REGISTRATION

The Registration section reviews and determines whether it is in the public interest to register a person or company to trade or advise in the trading of securities or commodity exchange contracts. In general terms there are three situations where the registration section considers whether a registration is in the public interest:

- When an applicant initially applies for registration. The applicant for registration must meet educational requirements, individuals must be supervised and companies must meet capital requirements.
- When a registration is renewed. Registrations are renewed annually. If the registration section becomes aware of information that the continued registration is not in the public interest, a decision can be made not to renew the registration.
- When a registrant requests a transfer of his or her registration. In most cases a transfer of an individual's registration from one company to another can be completed quickly. However, in cases where there is information to suggest the transfer was initiated because of a problem with the conduct of an individual registrant, the registration section can either refuse the transfer, or impose a requirement that the individual be more closely supervised until it can be determined whether there should be a hearing to determine if the individual's registration should continue.

New and renewed registrations, registration changes from mergers and acquisitions, and improvements to registration systems have each contributed to a continued increase in the number of new firms applying for registration in Manitoba, as well as an overall increase in the number of registrations:

Number of registrations:

	2005-2006	2004-2005	2003-2004
The Securities Act	13,949	13,291	12,246
The Commodity Futures Act	3,505	3,300	2,383

The registration section also continues to be involved in initiatives locally and through the Canadian Securities Administrators to improve the registration process. The registration section works with industry and other Canadian regulators to harmonize and improve the efficiency of the registration process.

Compliance Examination

The Compliance officer performs ongoing reviews of the operations of persons and companies registered with the Commission to ensure they are conducting business in a manner that does not pose a risk to the public. This is done through the review of financial reports submitted by registrants and by performing compliance examinations. Compliance reviews are an effective way of identifying risks before there is a loss to investors.

National Registration Database

The National Registration Database (NRD) permits an individual or company to submit registration information and requests to the Commission and other Canadian securities regulators electronically using a secure Internet connection.

NRD has created efficiencies in the registration process through the single point of entry into the registration process and through an increased coordination of registration forms and procedures. These efficiencies have been achieved without compromising the Commission's ability to monitor and respond to activities in Manitoba markets.

National Registration System

The National Registration System (NRS) is a voluntary system that was put into place by way of a Commission rule and policy. NRS allows a registrant to obtain registration in more than one Canadian jurisdiction by complying only with the registration requirements of the registrant's principal or home regulator. This results in a more efficient registration system for a registrant that conducts business in more than one province or territory. It also results in less duplication and a more efficient application of resources within each regulator.

CORPORATE FINANCE AND CONTINUOUS DISCLOSURE

The Corporate Finance section reviews prospectus filings and rights offerings to ensure that they contain full, true and plain disclosure of all material facts necessary to make an informed investment decision. Multi-jurisdictional offering documents are reviewed in accordance with the Mutual Reliance Review System and/or the Passport System. Both of these systems improve the efficiency of the capital markets in that the issuer deals only with the principal regulator and receives one receipt with respect to its offering.

Reporting issuers are required to file continuous disclosure materials such as financial statements, management discussion and analysis, material change reports, proxy materials and annual information forms with the Commission. Securities legislation sets

out the content requirements of these documents as well as the time periods in which they have to be filed.

Insiders of reporting issuers are required to file insider trading reports with the Commission, utilizing the System for Electronic Disclosure by Insiders (SEDI).

Continuous Disclosure Review Program

The Commission has implemented its own Continuous Disclosure Review Program and is participating with other members of the CSA in the development of a national program to ensure that all reporting issuers are subject to ongoing review, and that the reviews are performed efficiently and consistently. The CSA continues to work towards implementing a national continuous disclosure review program. Manitoba will be one of eight jurisdictions participating in this program.

The focus on continuous disclosure filings reflects the fact that over 90% of all trades take place in the secondary market and the quality and timeliness of information disclosed to capital market participants by reporting issuers is of the utmost importance to the market. Commission staff continues to review prospectus offerings, but its primary focus is now on the review of continuous disclosure filings.

Insider Trading

SEDI provides easy public access to insider reporting information and also allows for effective and efficient monitoring of insider trading reporting activity to ensure that filings are in the proper form and content and are made in a timely fashion. Staff continues to refine and enhance its review processes with respect to insider trading.

National Electronic Filing Systems

Corporate Finance staff continues to be involved with the maintenance and ongoing development of three electronic filing systems:

- SEDAR – a System for Electronic Document Analysis and Retrieval (SEDAR) has been in use since January 1, 1997 and provides for the electronic filing of securities-related documents with the Commission and other CSA jurisdictions. SEDAR allows for the efficient filing of documents with all regulators simultaneously and provides for secure electronic communication between issuers and regulators. SEDAR has greatly enhanced the efficiency of the Canadian capital markets and, when combined with the MRRS process, has resulted in the Canadian capital markets being one of the most efficient in the world. In addition, through its website at www. SEDAR.com, it allows for the timely dissemination of information to the public.

- SEDI – Manitoba continues to participate in the ongoing development of the System for Electronic Disclosure by Insiders (SEDI). SEDI is a national insider reporting database that was relaunched early in 2003/2004. The system provides ease of reporting to insiders and public access to insider trading information.

- National CTO database – Corporate Finance staff continue to participate with other CSA jurisdictions in the ongoing development and maintenance of a national cease trade order (CTO) database. This database has proven to be highly effective and allows members of the public and industry participants easy access to information relating to CTOs issued by securities regulatory authorities in Canada.

Policy Development

Corporate Finance staff was involved in the development and implementation of a number of significant national rules and policies dealing with such matters as:

- mutual fund governance and compliance rules
- investor confidence rules
- prospectus systems rules and policies
- amendments to continuous disclosure rules and policies
- defaulting issuer and cease trade order policies

Filings Processed

	Prospectus **	Prospectus Amendments	Annual Information Forms	Rights Offerings	Take-Over Bid Circulars
2002/2003	588	321	553	13	56
2003/2004	812	169	527	11	33
2004/2005	792	299	834	17	54
2005/2006	983	350	926	9	46

** *Prospectus documents filed – A single prospectus filing may contain multiple issues (i. e., a single mutual fund prospectus could contain as many as 100 funds).*

As evidenced by the above table, the level of prospectus and continuous disclosure filings continues to increase and it is anticipated that this will continue, at least for the near future.

PRIVATE PLACEMENT & EXEMPT OFFERINGS

The Commission recognizes the benefit to the Manitoba economy and the public in providing an environment that encourages the development of business and the need of those businesses to raise capital. Where the size of the business or the amount of capital to be raised does not warrant the use of a prospectus, securities regulation provides ways to assist businesses and make new offerings of securities available to Manitobans.

The Act, regulations and rules provide exemptions from the requirement to use a prospectus and the requirement to trade in securities through someone registered under *The Securities Act*. They are based on the nature of the security sold, the dollar amount of the purchase, as well as the knowledge of the purchaser. Limited offering exemptions are based on an offering of securities being made to a limited, identifiable group of purchasers, and are used by new businesses that need capital to establish operations. Purchasers of securities in limited offering exemptions either have knowledge of the business they are investing in or are required to seek independent advice with respect to the investment prior to purchase.

The raising of capital in Manitoba can be done in various ways. Under Manitoba law options are available to market securities using requirements that have been in place for many years and that are unique to Manitoba. The Commission has been told by its stakeholders that these Manitoba options continue to provide methods to raise capital that balance the interests of businesses and investors.

Commission rules also provide capital raising options that are available throughout most of Canada. Using one of these rules permits a business to raise capital in a consistent manner in most provinces or territories. These rules represent a positive step in the harmonization of securities regulation in Canada.

EXEMPTIONS AND ORDERS

Exemption Applications

Applications are made to the Commission for exemptions from regulatory requirements in situations where the granting of an order is not contrary to the public interest. The Commission deals with national applications and local applications.

National and Regional Applications

The Commission processes national and regional applications through the Mutual Reliance Review Systems for Exemptive Relief Applications, which allows for an application to be processed in several or all Canadian jurisdictions with a single Decision Document. The efficiency of the system benefits both issuers and the investing public and results in a wider range of products being offered in Manitoba.

Manitoba Applications

The Commission continues to be supportive of local community based projects that focus on businesses that will provide benefits to a community. While the Commission does not create business plans or proposals for local projects, staff works with applicants to satisfy themselves that each group has the tools required to raise capital in a manner that does not compromise the investor protection objectives of securities regulation.

The total number of orders issued under *The Securities Act* for fiscal 2004/05 are as follows:

ORDERS ISSUED	2005/2006	2004/2005	2003/2004
Exemption Orders	97	109	147
Take-Over Bid Orders	32	33	24
Inside Reporting Orders	51	36	39
Financial Reporting Orders	79	52	62
Cease Trade Orders*	40	51	50
Miscellaneous Orders	54	53	65

(* Cease Trade Orders include both permanent and temporary orders.)

LEGISLATION AND POLICY DEVELOPMENT

The dual mandate of the Commission of investor protection and facilitating fair and efficient capital markets requires continuous monitoring and review of securities regulations. It is important to ensure that any new or revised requirements do not inadvertently create barriers to market activity in Manitoba, are unnecessarily inconsistent with other jurisdictions or create unacceptable levels of risk for investors.

Some of the projects the Commission has been involved in during 2005-2006:

Passport and Highly Harmonized Securities Legislation

Working with the Ministers responsible for securities regulation and their respective staff, the Commission and other members of the CSA have been active in the development of a passport rule to allow for "one-stop shopping" for issuers and registrants in Canada. In addition the Commission and all other members of the CSA have undertaken to implement a number of harmonized targeted Act amendments intended to harmonize and streamline securities requirements that will bring the various Securities Acts across the country to the greatest level of uniformity ever. The Commission will be undertaking these amendments in several steps, the first set of amendments were presented in legislative form late in 2005 and received first and second reading. It is anticipated that these amendments will be reviewed at Committee and receive third reading during the spring legislative session of 2006. Additional amendments have been identified and will be put forward for consideration.

Uniform Securities Transfer Act

The members of the CSA, including The Manitoba Securities Commission, have been involved in the coordinated effort to enact the USTA, intended to modernize the passing of property in securities transactions, across the country. Canadian provinces and territories are being urged to pass USTA legislation as soon as practicable.

Policy

On a local basis, the Commission continues to strive for policy development to benefit investors and maintain fairness in the marketplace. On a national basis, the Commission continues to work with other CSA jurisdictions on the development of a governance regime for mutual funds, a new point of sale document for mutual funds, harmonized continuous disclosure rules and as noted above, legislative amendments to streamline and harmonize the various Securities Acts in Canada.

The bulk of national policy development takes place through CSA staff committees. The Commission was represented in 2005/06 on numerous CSA Committees and continues its commitment in this regard.

Rules

The Commission has the legislative authority to enact rules that have the same force and effect as regulations under the legislation. In fiscal year 2005/06, most rules enacted by the Commission were national instruments representing rules implemented on a Canada wide basis. The Commission enacted 21 rules during the period.

Legislative and policy matters and rules that were published for comment or adopted by the Commission during the past year are posted on the Commission's web site.

Winnipeg Commodity Exchange Inc.

The Winnipeg Commodity Exchange Inc. is registered as a commodity futures exchange under The Commodity Futures Act. It is also recognized as a self-regulatory organization under the Act.

The Commission oversees the operations of the exchange to ensure its business is being conducted in a manner that meets or exceeds international standards. The oversight program of the Commission includes ongoing review of the operations of the exchange and its clearinghouse, review of rules and policies of the exchange and the review and monitoring of products offered by the exchange.

INVESTIGATION AND ENFORCEMENT

Complaints & Inquiries

Staff investigates complaints and inquiries from the public. A complaint may relate to the conduct of a person or company registered to trade in securities or to trading activities of people not registered to trade securities in Manitoba. Complaints may also involve securities products that may or may not have been approved for trading in Manitoba.

As with any investigative agency, Commission staff must review all complaints received both on the basis of potential harm to the markets generally, and on the basis there may have been harm caused to an individual member of the public.

Commission staff will in many cases facilitate resolution of a complaint by speaking with both the securities firm and the client. In some cases, matters that relate to the conduct of a registrant are referred to a self-regulatory organization such as the Investment Dealers Association of Canada or the Mutual Fund Dealers Association for investigation and resolution.

During the fiscal year 2005/06 the number of complaints received relating to fraudulent schemes such as prime bank instruments and pension plan loans remained a concern. These illegal activities represent millions of dollars of illegal activity and continue to target all segments of the population. These fraudulent schemes continue to be a focal point in the Commission's public education initiative.

The number of enforcement inquiries and investigation files opened in 2005/06 saw an increase over the same figures for the prior fiscal year.

	2005-2006	2004-2005
Investigation and Enforcement Inquiries	268	206
Investigation files opened	138	60

Investigations

Once an investigation is commenced Commission staff attempt to gather evidence through witness interviews and through the obtaining of documents. In situations where this evidence cannot be gathered voluntarily, an investigation order can be issued to compel the production of evidence during an investigation.

The Hearing Process

After a complaint has been investigated a determination is made whether there is sufficient evidence to justify holding a hearing before the Commission or to conduct a prosecution in Court.

The Commission conducts hearings:

- to review whether a person or company should continue to be registered
- to review a decision made by the director
- to determine whether to deny someone the right to trade securities
- to decide whether trading of security should be halted
- to determine whether a financial loss compensation order should be issued and/or whether an administrative penalty should be assessed

The Commission also conducts prosecutions in court where there is an allegation of a violation of a law administered by the commission. A conviction for these offences can result in a fine and/or imprisonment.

Details of pending and completed Commission hearings and prosecutions are provided on the Commission's web site under the heading *Investigation & Enforcement*.

Financial Loss Claims

A member of the public who chooses to invest in securities accepts the risk that the market value of the investment may increase or decrease. The public does not invest with an expectation that there will be a decrease in the value of an investment caused by illegal or improper activity.

The Commission has the ability to order repayment to an investor for losses arising from illegal or improper conduct relating to the trading of securities, up to $100,000 per claim. This authority, the first of its kind in Canada, provides investors with an alternative to the civil court system and is a powerful tool for investor protection. By providing his option to investors, the investor and the subject of the Commission hearing can have all regulatory and financial loss matters dealt with in a single proceeding.

The ability of the Commission to order compensation to an investor also creates a strong incentive to resolve client complaints involving financial losses at an early stage, avoiding the need for the client to make a complaint to the Commission or spend money to have a matter determined by the courts.

The Commission received 25 claims during 2005/06 Commencing June 30, 2006 the Commission will post quarterly reports on its website concerning financial loss claims.

Investor Alert

The Commission believes that informing investors is often the best way to avoid losses through illegal or improper trading of securities. The Commission will issue an Investor Alert in situations where it is necessary to warn the public about activities that may be illegal or that pose a risk to the public. An Investor Alert may be issued even though there has not been sufficient time to assemble the evidence required to commence a Commission hearing or court prosecution.

Investor Alerts are issued through media outlets and posted on the Commission web site. They are issued throughout Manitoba, but in some cases have been targeted to specific areas in the Province where the deemed improper activities are occurring.

EDUCATION AND INFORMATION

The Commission's Education Department had a very productive year encouraging Manitobans to take a closer look at saving and investing issues.

On January 10, 2006, the Commission's new interactive education web site "Grow me the Money" was successfully launched. The new on-line financial challenge features four modules that focus on different financial stages in our lives. Participants can walk through each phase of life from a first job, to marriage, to starting a family and finally retirement. The modules provide Manitoban's with information on topics such as budgeting, RRSPs, RESPs, saving, investing, risk, return, scams and working with financial professionals.

During the first three months that the web site was operational, the following statistics were reported:

Month	Traffic	Unique Traffic	Number of Registrations
January	12637	864	244
February	4750	785	128
March	2721	418	106

The site will act as the basis for much of the education programming that will take place over the next two years. It has been promoted at trade shows, teacher's conferences, to the MSC mailing list data base and at educational presentations.

The Commission developed a new educational brochure entitled "Saving for your Child's Education: Get the facts about RESPs before you invest." It was distributed to libraries through out the province, family resource centres, adult literacy and adult learning centres, women's organizations and individuals who attended the Wedding Show and the Baby and Kids show.

The Commission delivered 30 public/industry presentations during the fiscal year reaching approximately 1100 individuals with our messages.

The Education Department continues to be active on both local and national committees. The Education and Information Coordinator was asked to Chair the Department of Finance Renewal Communications Sub Committee. Activities for this committee are moving forward.

In March 2006, the National "Test Your Financial IQ" contest was once again offered to Canadian youth between the ages 15-21. Twenty one thousand young people registered to win the provincial awards. Cash awards of $750 each were given to winners in 12 of the 13 participating jurisdictions. The Manitoba youth winner was Marson Gabutero of Winnipeg.

The Manitoba Securities Commission along with the Autorité des Marchés Financiers will be leading the revision of the contest for the 2006-2007 fiscal year. The changes will incorporate suggestions that were gathered at regional focus group testing sessions across Canada.

PART III - REAL ESTATE

Overview

The Real Estate Division administers The Real Estate Brokers Act and The Mortgage Dealers Act. The Real Estate Division is responsible for the registration of real estate brokers, mortgage dealers, and real estate and mortgage salespersons, investigation of complaints involving the alleged violation of the statues, and to provide public protection by raising and maintaining industry standards.

Education

The pre-licensing courses and exams for application are prescribed by the Commission and administered by The Manitoba Real Estate Association (MREA) under the direction of the Real Estate Division. Education standards are monitored by the Registrar who serves as a member of the MREA's Education and Examination Review Committee.

During 2005/06 there were 747 enrolments in the pre-licensing courses.

The Real Estate Division administered 10 examinations during the year being 4 Private Sales Agent broker exams and 6 restricted salespersons exams.

There were 1742 registrants that completed six hours of Mandatory Continuing Education (MCE 5) which was titled Legal Update and Practice Guidelines. This was the fifth year for the industry's continuing education course. The course material is reviewed and approved by the Education Committee of which the Registrar is a member.

During the year the MREA and Commission staff continued to work together to up-grade pre-licensing courses. On-line courses for persons wishing to become salespersons are in place and have been proven to be popular amongst individuals interested in pursuing a career in real estate. Informational material for persons interested in a real estate career have been revised and are circulated at various career symposiums. Up grading of course material also continues on an on-going basis.

Registrations

2258 registrations were issued for salespersons, authorized officials and real estate brokers, and mortgage dealers.

During the year numerous amendments involving name, address or corporate changes were processed under The Real Estate Brokers Act together with businesses re-organizing their affairs. In addition, 21 re-instatements and 121 salespersons transfers were processed.

Financial Filings and Compliance Audits

Commission staff review brokers' Annual Trust Account Reports and mortgage dealers' financial statements and Trust Compliance Reports filed with the Registrar and advise

broker and mortgage dealers on compliance with the trust accounting provisions of the statutes. The compliance program consists of field audits and follow-up field audit visits and providing information to professional accountants who prepare the statutory reports.

During the year staff reviewed approximately 374 reports filed by brokers and dealers and 16 final reports for brokers who ceased their operation. The Commission suspended 4 brokers for failing to file their Annual Trust Account Report on time and prosecuted 1 broker for this offence.

Investigation and Enforcement

The enforcement program addresses the following areas of investigation.

- Investigation of complaints alleging infractions of legislation and improper conduct
- The background of applicants and conduct of registrants
- Investigation of alleged unregistered trading

In addition to a number of miscellaneous complaints and inquiries handled on a daily basis, there were 67 formal written complaints under investigation during 2005/06. Investigations into 38 of these complaints are still ongoing. The finalized complaints were determined as follows:

- 21 complaints were unsubstantiated or were resolved with the assistance of Commission staff
- 10 resulted in a warning and/or a reprimand
- 7 complaints resulted in other action being taken
- 1 complaint resulted in a hearing and a suspension issued

LEGISLATION AND POLICY

Policy Development

Staff in the Real Estate section enforce the Commission's real estate registration, education and general policies.

The Registrar serves on The Real Estate Advisory Council, a non-statutory body that advises and makes recommendations to the Commission and the Manitoba Real Estate Association on real estate issues. The Council consists of ten members representing various stakeholders with the Registrar being the Commission's representative.

During 2005/06 some of the issues the Council dealt with were:

- Proposed amendments to the Real Estate Brokers Act
- Review of the Agency Task Force Report
- Policies and guidelines for the Real Estate Industry
- Categories of registration

Trust Accounts

Interest earned on Brokers' Trust Accounts

The Commission receives interest earned on real estate brokers trust accounts. The Real Estate Advisory Committee established by the Regulations under The Real Estate Brokers Act recommends real estate related projects for funding from the interest that the Commission receives. Funds that are not designated for projects are paid to the Minister of Finance on March 31st of every year.

The results of the program for 2005/06 are:

Receipts (in 000's)		
Received		$197
Paid Out:		
MREA – Affordable Aboriginal Home Ownership in Urban Markets	$131	
Minister of Finance	66	
		$197

Unclaimed Trust Money

Section 26 of the Real Estate Brokers Act allows brokers to pay unclaimed trust money in their trust accounts to the Commission to clear the funds from their trust accounts. Trust money paid to the Commission is held in trust pending receipt of a claim by the rightful claimant. A reserve is held in the account at the end of the fiscal year with the balance paid to the Minister of Finance.

Results of the program for 2005/06 are:

Receipts (in 000's)		
Accounted for as follows:		
Balance in account March 31/05	$ 25	
Received during year	78	
Sub total		$103
Paid out		
Minister of Finance	$ 78	
Balance		$ 25

PART IV - PERFORMANCE MEASUREMENT

The Commission's planning process is set out in three documents. At the top, the Commission has a multi-year Strategic Plan that notes the main challenges to the organization and maps out strategies to respond.

The annual Business Plan is based on the Strategic Plan and develops a one-year road map for strategy implementation while developing a budget for the operations of the Commission.

The Balanced Scorecard, which was developed by Commission staff with some outside consultation, is a dual purpose document in that it outlines goals/objectives of the Commission and actions required to achieve them as well as the means of measuring the agency's successes. In other words, in addition to being a performance measurement document the Balanced Scorecard doubles as a work plan for the overall Commission in the various functional areas for carrying out most aspects of the Business Plan.

The Balanced Scorecard template breaks down the Commission's broad goals into four perspectives being: financial, stakeholder, internal and learning and growth. Under each of the perspectives, in addition to goals or objectives, measures are set out as a means of determining as to whether the Commission has successfully achieved its goals for the year. There are two types of measurements, being "quantitative" and "qualitative". Quantitative measures are those that lend themselves easily to determination and comparison. These are generally matters that can be physically counted such as the number of field audits completed in a year, the number of staff that are cross-trained for other jobs, the number of hours of staff training completed, and the number of educational programs delivered to the public.

Qualitative measurements are those matters less prone to physical comparison but are still considered valid indicators of the fulfillment of Commission objectives. For example, under "internal perspective" the first stated goal in the Scorecard is "developing and maintaining a superior knowledge base". An action aimed at furthering this goal includes for all functional areas the preparation of written procedure and policy manuals. The completion of these manuals is considered a qualitative measure in that their availability will serve to increase operational understanding and communication. With qualitative measures the timely completion of the action, designed to further agency goals, is taken as a measurement in itself that the Commission's goals are being achieved.

Each year the Commission's Balanced Scorecard Committee reviews the items in the overall Scorecard template for continued relevance and makes necessary changes. Each of the seven functional sections then meets to apply the template to their specific areas and the actions to be undertaken by each to achieve the goals are determined. Each action is directly related to an organizational goal or objective. Every staff member takes part in this exercise. The individual area templates are collected, reviewed and placed in the Scorecard document. Those actions which are overall organizational actions or require the co-operation of several of the functional areas are marked (*) on the document, which in its final form is some 30 to 35 pages.

The template includes baselines, targets and a column for results. The Scorecard is reviewed by the entire staff on a regular basis and following the year-end a final report on

the organization's performance success is distributed to all staff members. The Commission has now completed its third Balanced Scorecard cycle and has completed its fourth Scorecard for fiscal year 2005/06. In each of the three preceding fiscal years the organization has generally met the performance goals it has set. This is particularly so in those quantitative measures where performance targets were laid out. In those few areas where performance targets were not met during the fiscal year, valid reasons were given and the goals and targets were identified for completion during the subsequent cycle.

The Commission has found the Balanced Scorecard to be a very useful tool in the planning/reporting process and a valuable method of identifying agency objectives and utilizing the talents of all staff in determining actions to meet those goals and setting measures for performance. This document is very much a creation of Commission staff and while there are always different ways to view and measure performance, the team performing the Commission's Effectiveness Evaluation in 2002 considered this document to be comprehensive, reasonable and appropriate. At the same time, the Commission realizes the importance of remaining current in its performance measurement outlook and senior management reviewed the document for amendments during 2005/06. Certain amendments have been adopted for use during the planning for 2006/07 as will be reported in the next Annual Report.

PART V - INFORMATION TECHNOLOGY

Overview

As of March 31, 2006, the Commission had the following internal systems in place:

- *Manitoba Securities Commission Information System 2.0 (MSCIS 2.0);*
- *Real Estate Information System (REIS).*

This year the Real Estate section began converting to an on-line system to replace REIS, which is expected to be in place in December 2006.

The Commission uses Microsoft Great Plains, an accounting and financial reporting software package for all its accounting and reporting needs.

As well, the Commission interfaces with, and uses, the following national CSA systems:

- *System for Electronic Data Analysis and Retrieval (SEDAR)*
- *National CTO Database*
- *System for Electronic Disclosure by Insiders (SEDI); and*
- *National Registration Database (NRD)*

These systems allow the Commission to receive, store and have access to pertinent information and documentation filed with respect to *The Securities Act, The Commodity Futures Act, The Real Estate Brokers Act and The Mortgage Dealers Act.* Maintenance and development of these internal and external systems insure that daily operations run effectively and efficiently.

The Commission has a standing IT Committee that meets regularly to evaluate and prioritize the Commission's information systems requirements. The Commission uses Request Tracker to track the various changes that are requested and made to MSCIS 2.0.

PART VI - FINANCIAL DISCUSSION

FINANCIAL DISCUSSION

Management's Discussion and Analysis

This discussion and analysis presents the operating results of The Manitoba Securities Commission for the year ended March 31, 2006. It should be read in conjunction with the Commission's audited financial statements.

Results of Operations

Net Income

Net income for the year ended March 31, 2006 was $7.1 million, an increase of 8% over the prior year. Expenses of $3.5 million came in under budget by $367,000. The net result, was net income exceeded budgeted income of $5.2 million by $1.9 million or 37%.

Revenue

The Commission exceeded its revenue targets by 17% or $1.5 million due to an increase in market activity and changes to the Commission's fee schedule. This year's revenue totaled $10.5 million, as compared to last year's total of $9.8 million (see Table 1 for details).

Table 1

Revenue (000's)	2006	% of Total	2005	% of Total	2006 % Increase/ (Decrease) From 2005
Filing Fees	$5,308	50%	$ 4,971	50%	7%
Registration Fees	4,097	39%	3,801	39%	8%
Financial Statement Fees	415	4%	394	4%	1%
Application Filing Fees	252	2%	237	2%	6%
Real Estate Fees	374	4%	357	4%	5%
Investment Income	93	1%	78	1%	19%
Miscellaneous	0		0		
	$10,539	**100%**	**$ 9,838**	**100%**	**7%**

The primary sources of revenue (filing and registration fees) for the Commission in fiscal 2006, contributed 89% of the total, the same as in fiscal year 2005.

Filing Fees are made up of fees for new and renewal prospectus filings, prospectus amendments, annual information forms and rights offerings. An increase of 7% in filing fees over the previous year, to $5.3 million, was due to a increase in volume and a change in our fee schedule which resulted in the filing fee for Annual Information Forms being applied to a larger number of reporting issuers.

Registration Fees, comprised of fees for registration of advisors, dealers,

and salespersons, were $4.1 million, 8% greater than the previous year. The reason for this is that registration volumes continued to increase.

Expenses

Total expenses for the fiscal year 2006 were $3.5 million, a 7% increase over fiscal year 2005 ($3.2 million). See Table 2 for details.

Table 2

Expenses (000's)	2006	% of Total	2005	% of Total	2006 % Increase/ (Decrease) From 2005
Salaries and Benefits	$ 2,279	66%	$ 2,159	67%	6%
Operating Expenses*	1,052	31%	1,023	31%	3%
Amortization	119	3%	59	2%	102%
	$ 3,450	**100%**	**$ 3,241**	**100%**	**7%**

*See Schedule of Operating Expenses in the Notes to the Financial Statements

Total expenses were $350,000 or 11% below the budget of $3.8 million. Variances in salaries and benefits and operating expenses are explained below.

Salaries and Benefits

Overall, salaries and benefits increased by 6% (or $120,000) over the previous year. However, salaries and benefits were 5% below budget due to two in-house vacancies in the first quarter and the utilization of the Voluntary Reduced Work Week program.

Operating Expenses

Operating expenses for the fiscal year were 3% higher than last year but were under budget by $253,000 or 24%. Variances are as follows:

- Contract Services – under budget by $116,000 due to lower costs for desktop support, information systems support, NRD, mail chargeback and internet services;
- CSA Initiative spending was under budget by $47,000;
- Office materials and supplies – under budget by $21,000 due to lower costs on advertising and promotion costs, courier costs and photocopier/fax costs;
- Education initiatives – under budget by $23,000 due to the timing of an initiative payment;
- Staff development and professional dues – under budget by $14,000 due to less training this year than in the past; and

- Miscellaneous – under budget by $13,000 due to the Commission not incurring additional expenses.

Capital Expenditures & Liabilities

Capital expenditures for the year were $37,000. These expenditures were for Office Equipment $1,000, Furniture and Fixtures $7,000, Computer Hardware for $1,000, Leasehold Improvements $5,000 and Computer Software for $23,000. Capital expenditures were financed by funds provided through operations.

Accrued liabilities were $27,000 compared to $7,000 in fiscal 2005. At March 31, 2006 the balance represents accrued vendor obligations. Accrued vacation and severance liabilities were $188,000 and $181,000 as at March 31, 2006 compared to $185,000 and $172,000 respectively, in the previous fiscal year.

Disposition of Surplus Operating Funds

The Commission made the required quarterly payments to the Province of Manitoba totaling $7.0 million. The payment amount is calculated annually and is included in the Commission's business plan as a disposition of surplus operating funds in the Statement of Retained Earnings.

Liquidity

Liquidity can be defined as an organizations ability to meet financial obligations as they come due. Liquidity management provides the certainty that funds will be available to honour all commitments and involves continuous forecasting and monitoring of expected cash flows. The Commission requires liquidity principally to finance its operations and capital expenditures. Its objective is to have sufficient funds available to maintain its operations, without impairment, should revenue decrease below expenses. As at March 31, 2006 the Commission has $750,000 in its reserve fund to accommodate for any unforeseen changes in cash flows. These funds are invested with the Province of Manitoba Treasury Division and allow the Commission the flexibility to access these funds when needed.

Outlook 2006/2007

The Commission will look to generate $6 million in net income in fiscal year 2007. This translates into budgeted revenue of $9.9 million and budgeted expenses of $3.9 million. With the Commission having no control over market activity, budgeted revenues are subject to variability.

RESPONSIBILITY FOR FINANCIAL REPORTING

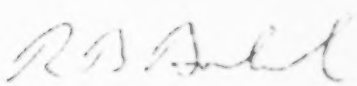
The Commission's management is responsible for preparing the financial statements and other financial information in the Annual Report. These financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The financial statements include amounts that are based on management's best estimates and judgments. The Commission's financial statements have been audited by BDO Dunwoody, independent external auditors.

The Commission maintains accounting and internal control systems to provide reasonable assurance that its financial information is reliable and accurate and that its assets are adequately protected.

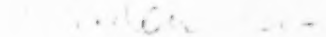
The Commission's management meets regularly to review the financial statements and accounting practices. The auditors have free and full access to management, if required to discuss results of their audit and their views on the adequacy of internal controls and the quality of financial reporting.

On behalf of management,

Donald G. Murray
Chair and C.E.O.



Robert B. Bouchard
Chief Administrative Officer



Marlene Nemes
Controller

THE MANITOBA SECURITIES COMMISSION

Financial Statements

For the year ended March 31, 2006

THE MANITOBA SECURITIES COMMISSION

Financial Statements
For the year ended March 31, 2006

Contents

Auditors' Report	2
Financial Statements	
Balance Sheet	3
Statement of Income	4
Statement of Retained Earnings	5
Statement of Reserve Fund	5
Statement of Cash Flows	6
Summary of Significant Accounting Policies	7
Notes to Financial Statements	8
Supplementary Information to the Financial Statements	
Schedule of Operating Expenses	12
Schedule of Public Sector Compensation Disclosure	13

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Auditors' Report

To The Special Operating Agencies Financing Authority:

We have audited the balance sheet of **THE MANITOBA SECURITIES COMMISSION**, An Agency of the Special Operating Agencies Financing Authority, Province of Manitoba as at March 31, 2006 and the statements of income, retained earnings, reserve fund and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

BDO Dunwoody LLP

Chartered Accountants

Winnipeg, Manitoba
May 9, 2006

THE MANITOBA SECURITIES COMMISSION
Balance Sheet
(in thousands)

March 31	2006	2005
Assets		
Current Assets		
Cash and short-term deposits (Note 2)	$ 3,245	$ 2,863
Accounts receivable (Note 3)	16	12
Prepaid expenses	21	26
	3,282	2,901
Restricted short-term deposits (Note 4)	750	1,000
Receivable from the Province of Manitoba (Note 5)	269	269
Capital assets (Note 6)	204	286
	$ 4,505	$ 4,456
Liabilities and Equity		
Current Liabilities		
Accounts payable and accrued liabilities	$ 28	$ 7
Accrued vacation entitlements (Note 7)	188	185
Accrued salaries and benefits	-	73
	216	265
Severance pay liability (Note 8)	181	172
	397	437
Commitments and contingency (Notes 9 and 12)		
Reserve Fund (Note 10)	750	1,000
Retained earnings (Page 5)	3,358	3,019
	4,108	4,019
	$ 4,505	$ 4,456

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements

THE MANITOBA SECURITIES COMMISSION

Statement of Income

(in thousands)

For the year ended March 31	2006	2005
Revenue		
Fees	$ 10,445	$ 9,757
Interest	93	78
Miscellaneous	1	3
	10,539	9,838
Expenses		
Salaries and benefits	2,279	2,159
Operating expenses (Page 12)	1,052	1,023
Amortization - capital assets	119	59
	3,450	3,241
Net earnings for the year (Page 5)	$ 7,089	$ 6,597

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

THE MANITOBA SECURITIES COMMISSION
Statement of Retained Earnings
(in thousands)

For the year ended March 31	2006	2005
Retained earnings, beginning of year	$ 3,019	$ 3,422
Net earnings for the year (Page 4)	7,089	6,597
Disposition of surplus operating funds (Note 11)	(7,000)	(7,000)
Allocation from Reserve Fund	250	-
Retained earnings, end of year (Page 3)	$ 3,358	$ 3,019

Statement of Reserve Fund
(in thousands)

For the year ended March 31	2006	2005
Balance, beginning of year	$ 1,000	$ 1,000
Allocation to Retained Earnings	(250)	-
Balance, end of year (Page 3)	$ 750	$ 1,000

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements

THE MANITOBA SECURITIES COMMISSION
Statement of Cash Flows
(in thousands)

For the year ended March 31	2006	2005
Cash Flows from Operating Activities		
Net earnings for the year	$ 7,089	$ 6,597
Adjustment for		
Amortization - capital assets	119	59
	7,208	6,656
Changes in non-cash working capital		
Accounts receivable	(4)	1
Prepaid expenses	5	11
Accounts payable and accrued liabilities	21	(24)
Accrued vacation entitlements	3	12
Accrued salaries and benefits	(73)	6
	(48)	6
Severance pay liability	9	18
	7,169	6,680
Cash Flows from Investing Activities		
Acquisition of capital assets	(37)	(131)
Transfer from restricted short-term deposits	250	-
	213	(131)
Cash Flows from Financing Activities		
Disposition of surplus operating funds	(7,000)	(7,000)
Net increase (decrease) in cash and cash equivalents	382	(451)
Cash and cash equivalents, beginning of year	2,863	3,314
Cash and cash equivalents, end of year	$ 3,245	$ 2,863
Supplementary information:		
Interest received	$ 88	$ 79

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

THE MANITOBA SECURITIES COMMISSION
Summary of Significant Accounting Policies

March 31, 2006

Basis of Reporting

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

Capital Assets

Capital assets are recorded at cost and amortized over their estimated lives as follows:

Office equipment	20% straight-line
Furniture and fixtures	20% straight-line
Leasehold improvements	10% straight-line
Computer hardware	20% straight-line
Computer software	20% straight-line

The half-year rule is used in the year of acquisition.

Revenue Recognition

Fees and cost recoveries are recognized when received. Investment income is recorded in accordance with terms of the related investment.

Financial Instruments

The Commission's financial instruments consist of cash and short-term deposits, accounts receivable, restricted short-term deposits, amounts due from related parties, and accounts payable and accrued liabilities. It is management's opinion that the Commission is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair values of these financial instruments approximate their carrying values.

Use of Estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's best estimates as additional information becomes available in the future.

March 31, 2006

1. Nature of Organization

Effective April 1, 1999 the Lieutenant Governor in Council designated the The Manitoba Securities Commission as a special operating agency under The Special Operating Agencies Financing Authority Act (C.C.S.M. c.S185) by Order in Council No. 144/1999. The Order also gave approval to the Special Operating Agencies Financing Authority and the Minister of Consumer and Corporate Affairs, being the Minister responsible for the Commission, at that time, to enter into a management agreement with respect to the Commission.

The Management Agreement between the Financing Authority and the Minister of Consumer and Corporate Affairs assigns responsibility to manage the assets transferred to The Manitoba Securities Commission in delivering regulated services to clients.

2. Cash and Short-term Deposits

The Commission invests all surplus cash in short-term deposits with the Province of Manitoba, which are made up of thirty, sixty and ninety day callable term deposits.

3. Accounts Receivable

	2006	2005
Accrued interest	$ 16	$ 11
Trade	-	1
	$ 16	$ 12

4. Restricted Short-term Deposits

The Commission maintains separate short-term deposits with the Province of Manitoba to fund expenses which may arise with respect to the Reserve Fund (Note 10).

5. Receivable from the Province of Manitoba

The receivable from the Province of Manitoba is made up of vacation and severance pay entitlement earned by employees of the Commission prior to creation of the SOA as at April 1, 1999. This receivable, or portion thereof for the Commission, will be collected in the event there is a cash shortfall. However, this is only likely to happen on the dissolution of the Commission. The balance consists of:

	2006	2005
Vacation entitlements	$ 117	$ 117
Severance pay benefits	152	152
	$ 269	$ 269

6. Capital Assets

	2006		2005	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Office equipment	$ 27	$ 24	$ 26	$ 19
Furniture and fixtures	135	123	128	109
Leasehold improvements	5	-	113	57
Computer hardware	122	118	121	117
Computer software	845	665	822	622
	$ 1,134	$ 930	$ 1,210	$ 924
Cost less accumulated amortization		$ 204		$ 286

7. Accrued Vacation Entitlements

The Commission follows the policy of the Department of Finance to recognize the vacation entitlement liability accumulated to March 31, 1999. The liability at this date is offset by a receivable from the Province and was $117 as at March 31, 1999. Any subsequent changes to the entitlement are reflected as a current year expense to the Commission. As at March 31, 2006 there was an increase to the entitlement in the amount of $3. The accrued vacation entitlement was $188 as of March 31, 2006 (2005 - $185).

8. Severance Pay Liability

Effective April 1, 1999, the Commission began recording accumulated severance pay benefits for its employees. The amount of severance pay obligations is based on actuarial calculations. The periodic actuarial valuations of these liabilities may determine that adjustments are needed to the actuarial calculations when the actual experience is different from that expected and/or because of changes in actuarial assumptions used. The resulting actuarial gains or losses are amortized over the expected average remaining service life of the related employee group.

An actuarial report was completed for the severance pay liability as of March 31, 2005. The report provides a formula to update the liability on an annual basis. The Commission's actuarially determined net liability for accounting purposes as at March 31, 2006 was $181 (2005 - $172). Commencing in the 2006 fiscal year, the actuarial loss of $7 is being amortized over the 15 year expected average remaining service life of the employee group.

9. Lease Commitment

The Commission has entered into a lease agreement commencing October 1, 2005 for rental of facilities at 400 St. Mary Avenue, which expires September 30, 2020. Occupancy charges for the year ended March 31, 2006 were $226. Minimum annual lease payments total $236 per year for each of the next five years.

10. Reserve Fund

The Commission has established a Reserve Fund to finance extraordinary expenses for isolated and unanticipated purposes that are regulatory in nature and for changes in market activity that has a negative effect on revenues. As per a Treasury Board directive, the amount of the Reserve Fund has been reduced to $750,000 in the current year.

11. Disposition of Surplus Operating Funds

The disposition of surplus operating funds consists of payments made to the Consolidated Revenue Fund of the Province of Manitoba according to Treasury Board Directives.

12. Contingency

The Commission has been named as defendant in two statements of claim. At the time of preparation of these financial statements, the outcome of these claims were undeterminable. The cost of a future settlement, if any, will be reflected as an expense in the year paid.

13. Pension Benefits

Employees of The Manitoba Securities Commission are eligible for pension benefits in accordance with the provisions of the Civil Service Superannuation Act (CSSA), administered by the Civil Service Superannuation Board (CSSB). The CSSA established a defined benefit plan to provide benefits to employees of the Manitoba Civil Service and to participating agencies of the Government, including the Manitoba Securities Commission, through the Civil Service Superannuation Fund (CSSF).

Effective March 31, 2001, pursuant to an agreement with the Province of Manitoba, The Manitoba Securities Commission transferred to the Province the pension liability for its employees.

Commencing April 1, 2001, The Manitoba Securities Commission was required to pay to the Province an amount equal to its employees' current pension contributions. The amount paid for 2006 was $86 (2005 - $92). Under this Agreement, the Manitoba Securities Commission has no further pension liability.

THE MANITOBA SECURITIES COMMISSION
Schedule of Operating Expenses
(in thousands)

For the year ended March 31

	2006	%	2005	%
Contract services	$ 300	29	$ 410	40
Premises	226	21	149	15
Office materials and supplies	111	11	69	7
Professional services	85	8	76	7
Travel	81	8	63	6
Telecommunications	63	6	59	6
CSA initiatives*	66	6	68	7
Research resources	29	3	32	3
Education/Information initiatives	47	4	51	4
Staff development	23	2	26	3
Miscellaneous	13	1	12	1
Professional membership and dues	8	1	8	1
	$ 1,052	100	$ 1,023	100

* Canadian Securities Administrators

THE MANITOBA SECURITIES COMMISSION
Schedule of Public Sector Compensation Disclosure
(in thousands)

For the year ended March 31, 2006

Employee	Title	Compensation
Don Murray	Chairman & CEO	$ 127
Doug Brown	Director & Secretary to the Commission	116
Bob Bouchard	Director & CAO	97
Chris Besko	Assistant Legal Counsel	97
Kim Laycock	Assistant Legal Counsel	97
Steven Gingera	Assistant Legal Counsel	97
William Baluk	Registrar	75
Wayne Bridgeman	Senior Analyst	70
Jan Banasiak	Senior Investigator	70
Marlene Nemes	Controller	69
Ainsley Cunningham	Information Officer	62
Paula White	Compliance Officer	60
Chris Kowalski	Deputy Registrar - Real Estate	59
Jason Roy	Investigator	59
Isilda Tavares	Registration Officer	59

The Public Sector Compensation Disclosure Act requires all publicly funded bodies to disclose compensation to any employee or board member when such compensation exceeds $50 per annum.